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Effect of Budget Planning on Financial Performance of Manufacturing Firms in Kenya.

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Abstract: The financial performance of the manufacturing companies in Kenya significantly contributes to the growth of the country's industrial sector, stock market, and overall economy. However, various challenges may threaten this performance, potentially leading to a downward trend. As demonstrated over the five-year period from the years 2018 to 2022, the financial performance of some manufacturing companies has continued to decline and fluctuate unpredictably even after implementing budgeting planning. Although budget planning processes are intended to improve financial performance, the irregular financial performance of manufacturing companies continues to persist. Given this uncertainty, it remains unclear whether budget planning significantly impacts the financial performance of manufacturing companies. With this in mind the study aimed to determine the relationship between the budgeting planning process and the financial wellbeing of manufacturing companies in Kenya. The study's specific objectives are; resource allocation, revenue forecasting financial accountability, and expense forecasting on the financial performance of manufacturing firms in Kenya. Research hypotheses were evaluated at a significance level of 0.05. This study is underpinned by two theories, incremental budgeting and the Goal Setting Theory. The study employed a descriptive survey design and the target audience was seven hundred forty-one (741) manufacturing firms operating in Kenya. The study used both primary and secondary data. Descriptive statistical methods were applied to describe the application of budgeting planning in the sampled manufacturing firms. Inferential statistical techniques such as correlation analysis and regression analysis were applied to test the hypotheses of association and differences. The collected data was processed using the statistical package for social science (SPSS). The study findings revealed that budgeting planning (β=0.810, p-value =0.000), have significant positive effect on the financial performance of manufacturing firms in Kenya. The study recommends that budgeting planning are instrumental in enhancing the firm's financial performance. By setting spending limits and monitoring actual expenditures against the budget, firms can prevent overspending and ensure resources are used efficiently.

Key Words: Budget Planning, financial performance, manufacturing firms

I. Introduction

Worldwide, the profitability of manufacturing companies in European countries has been inconsistent over the five-year period from 2014 to 2019. A World Bank report (2021) attributes these fluctuations to the companies' failure to effectively implement their budgets. The main factors contributing to these variations were rising debts, overspending, and low liquidity levels. Although debts were increasing, the value of the firms and their overall returns were declining each year. The manufacturing industry is a chief source of growth. The future of the manufacturing industry depends on how well these firms can plan their finances in a turbulent environment (Omesa,2015). Most countries that are major players in the global economy have transformed the structures of their economies by developing a strong and virile manufacturing sector (Cholatra, 2013). Given this, the importance of manufacturing sector contributions to the growth of an economy cannot be over-emphasized. According to (Kouser, 2012), the manufacturing sector remains crucial to the drive for rapid industrialization and economic growth in all countries of the world. Manufacturing in an economic sense means the process of converting raw materials, components, or parts into finished goods that meet consumer's expectations or specifications (Agbeja, 2015). The sector is reputed to be an important engine for growth and an antidote for unemployment, a creator of wealth, and the threshold for sustainable development. It is argued that firms grow in many ways and that a firm's growth pattern is related to age, size, and profitability (Delmar, 2013).

Globally, financial performance is essential to the continual existence and success of enterprises. It is concerned with the level at which they achieve the identified financial objectives. (Agbenyo. W., 2018) state that the foremost objective associated with financial performance is the maximization of shareholder's wealth. Therefore, managers have to prioritize it as it guarantees steady growth, enhances the chance of pursuing prospects, and offers a buffer against risks. According to Jones (2016), superior financial performance is often connected to better effectiveness and efficiency of managers in utilizing a company's resources. According to (Maduekwe, 2016)Budget planning is critical to the attainment of the set organizational objectives, which necessitates the effective development and implementation of budgets. Qi (2015) argues that the budgeting process may vary in different organizations. For instance, formal procedures may be carried out by dedicated committees in big organizations, but proprietors of small businesses may carry out all informal processes in large companies. Organizations can become profitable in a sustainable way by preparing and managing their budgets well (Agbenyo. W., 2018). Companies in the United Kingdom mostly make budgets to facilitate planning, assessment of performance, and control Jones (2016).

Budgeting planning is a continuous process that flows with strategic decision-making. Budgeting is a vital tool in organizations for directing activities and employees' efforts toward the organization's growth (Covaleski, 2013). Budgeting requires the organization to engage in systematic operational planning for the near future and to consider how to best allocate its limited resources among the organization's various operating units. Budget planning includes monitoring and control, budget coordination, and budget evaluation which is ultimately evaluated based on some comparison of actual versus budgeted results a factor for organization performance (Kartikasari, 2016).

Global Perspective of Budget Planning and Financial Performance of Manufacturing Firms

In the United States of America (USA), manufacturing is the largest sector. It produces 18.2 percent of the world's goods; manufacturing is an essential component of its gross domestic product. In 2022, it was 2.33 trillion US dollars that drove 11.6 percent of U.S. economic output (US Bureau of Economic Analysis, 2022). It is strategic financial planning that has helped to improve the profitability position of the manufacturing concern with the help of strong financial control devices such as capital structure and liquidity practices(Alina, 2016). The finance strategy selections and finance planning capabilities have a great influence on the advancement of rapidly growing firms along the globalization process, the more efficient strategic financial planning, the higher the profitability (Dawson, 2013).

In the United Kingdom (UK), the manufacturing sector accounted for approximately 14% of the total value of services exports; through the adoption of effective financial planning (Rhodes, 2020). Manufacturers have responded to the rise in globalization and increased international competition by outsourcing and offshoring to emerging countries lower value activities in the company's value chain such as production (Strange, 2017). This has enabled them to enhance their productivity and reduce costs while at the same time gaining important access to fast-growing emerging markets. Manufacturers have sought to differentiate themselves further by shifting away from traditional business strategies based around the sale of a particular product to new models where the sale of a product is combined with associated services.

In India, manufacturing has emerged as one of the high-growth sectors. The Gross Value Added (GVA) at basic current prices from the manufacturing sector in India grew at a compounded Annual Growth Rate (CAGR) of 4.34 percent during the financial year 2012 and financial year 2018. In 2021-22, the manufacturing sector is expected to grow by 12.5 percent, mining, and quarrying by 14.3 percent, construction by 10.7 percent, and electricity, gas, and water supply by 8.5 percent. This improvement is on the back of industrial contraction in the corresponding period of the last financial year (India Economic Survey, 2021-2022). Despite the aforementioned emphasis on the manufacturing sector in Indian planning outlays and strategies, the share of manufacturing in GDP and its growth rate has only been modest at around 16% in 2017 from about 13% in 2010 and 15% in 2000. Financial planning reforms in India's manufacturing sector brought about an increase in growth and productivity which fell short of expectations especially when because the reforms were macro-economic in nature (Economic Survey, 2022-2023).

Regional Perspective of Budget Planning and Financial Performance of Manufacturing Firms

In Africa, the manufacturing industry is an extraordinarily important sector of the overall economy (Asantina, 2018). The African continent and many of the countries have been classified as efficient cost producers in world terms. However, trade in manufacturing is somewhat skewed. This skew in the statistics results basically from the large quantities of imports into West Africa (Nigeria in particular), imports which largely revolve around refined raw materials (UNCTAD,2019). In Ghana, the manufacturing industry accounts for approximately 11.7% of the total GDP according to the Ghanaian Statistical Service (GSS) which represents a significant decline in the sector. Poor financial management practices have been linked to be the main cause of failure for most enterprises in Ghana regardless of whether a manager

or a hired-manager, if the financial practices are wrong, the profitability of the company will be adversely affected (Eric, 2017). However, financial planning practices such as budget planning have an imperative role in the performance of listed manufacturing firms (Agbenyo. W., 2018). Uganda, which is rich in natural resources that offer downstream, manufacturing opportunities, has undertaken sweeping policy reforms and initiatives since the 1990s. These are spelled out in various government policy documents and strategic plans especially, Uganda Vision 2040 (Republic of Uganda, 2013). The expansion of manufacturing activities in Uganda continues to be hampered by obstacles such as weak institutional support; limited access to affordable credit, particularly ineffective financial planning which leads to costly, unreliable, and inadequate physical infrastructure these challenges weaken the financial position of the firms (Kiiza, 2016)

Local Perspective of Budget Planning and Financial Performance of Manufacturing Firms

Kenya's manufacturing sector is the third largest sector contributing 9.6 percent of Kenya's GDP serving both the local market and exports to the East and Central Africa region (KNBS, 2022). The sector employs about 2.3 million in both Formal and informal sectors. The sector is loosely classified into twelve (12) sub-categories based on the raw materials the companies import and or the products they manufacture. The individual firm members are organized under the membership of the Kenya Association of Manufacturers (KAM) to give them a platform for negotiating common positions with the relevant government authorities (Surma, 2011). Locally, Onduso (2013) studied how budgets affected the financial health of industrial enterprises in Nairobi City County. Both primary and secondary data were employed in the investigation. A regression model and statistical software for social sciences were both used as analysis techniques to ascertain the link between the dependent and independent variables. His research suggested that management and the usage of budgets had an impact on financial health as assessed by ROA. The study also showed that enterprises had to hire outside help to assist in budget development because the qualifications of those in charge of overseeing the company's activities were inadequate.

Mbugua (2013), who utilized a cross-sectional research method to examine a sample of 60 businesses, asserted that whereas budget control processes and budgeting methodology have no noticeable impact on revenue collection in the business under consideration, budget planning and budgetary involvement have a favorable, considerable impact on the effectiveness of revenue collection for water service companies. When Mwangi (2014) looked at how budgetary forecasting techniques affected the financial health of Kenya's licensed PSV corporations, he discovered that those companies that adopted budgetary planning systems had positive performance ratios while those that did not use them had negative ones. The survey also showed that most professionals in the field were unaware of these methods, and those who failed to apply them properly. The impact of budgetary control on the financial health of a sample of Kenyan industrial companies was examined by Koech (2015). The findings showed a substantial correlation between manufacturing enterprises' financial performance and three variables (planning, monitoring, and control, as well as participatory budgeting).

In Kenya, the financial process is still not a reliable, efficient, or effective vehicle for turning policy into noticeable results. There is a mismatch between what businesses claim in their policies and what they can afford as a result of poor coordination between policymaking, planning, and budgeting. Planning, budgeting, and policymaking are three crucial activities that must be connected. Kenyan policies and budgets differ greatly due to the unavailability of this relationship. Instead of assigning the anticipated resources by the intended goals and agreed-upon objectives, budgeting has evolved into an annual battle to stay afloat. This was the basis for the study's aim to investigate the impact of budgeting planning and financial performance on manufacturing enterprises traded on the Kenyan NSE.

II. Statement of the Problem

The manufacturing sector has a great potential for promoting economic growth and competitiveness in Kenya. It contributed 9.6% of the GDP in2018 (KNBS, 2019) and also accounts for nearly 45% of employment (Mwarari, 2013) . Manufacturing firms are faced with several challenges prominently among them are poor budgeting planning activities resulting from a lack of required expertise in budgeting, improper planning, and inadequate supervision by top managers (Onduso,2013). For example, Corn Product International's financial results showed a falling trend in ROA of 10% in 2018, 9.8% in 2019, 8.8% in 2020, 7% in 2021, and 6.5% in 2022.

According to East African Portland Cement's financial results, ROA performance varied from 11.7% in 2018 to 9.8% in 2019, to 8.6% in 2020 to 7.7% in 2021 to 7.1% in 2022. Unga Limited posted inconsistent performance with ROA being -0.07% in 2018, 7.9% in 2019, 5.1% in 2020, to o.55% in 2021, and -0.8% in 2022 (NSE,2023). This is an indication that many manufacturing firms in Kenya are experiencing performance challenges with many reporting profit warnings for example Kakuzi Ltd, Sameer Africa, and Crown Paints among others (NSE, 2023).

Preceding studies have been conducted on budgeting planning however the findings are inconclusive. Additionally, studies have produced contradictory findings that reveal numerous study gaps and cannot, therefore, be generalized. For instance, Yang (2010) looked at how Chinese SMEs' performance is impacted by their budgeting procedure. There were conceptual and contextual gaps in this study, which the present research attempted to fill. An exploratory study was conducted by (Mulani, 2017) to determine the impact of the budgetary process on the performance of SMEs in India. There were conceptual and contextual gaps in this study, which the current study attempted to fill. Locally, (Mudiri, 2020)carried out a study on Budgeting planning practices and performance in Uasin Gishu County, Kenya. Both conceptual and methodological gaps were present in this study, which the current study attempted to fill. Consequently, this study's objective is to assess the Budgeting planning and financial performance of listed manufacturing firms in Kenya.

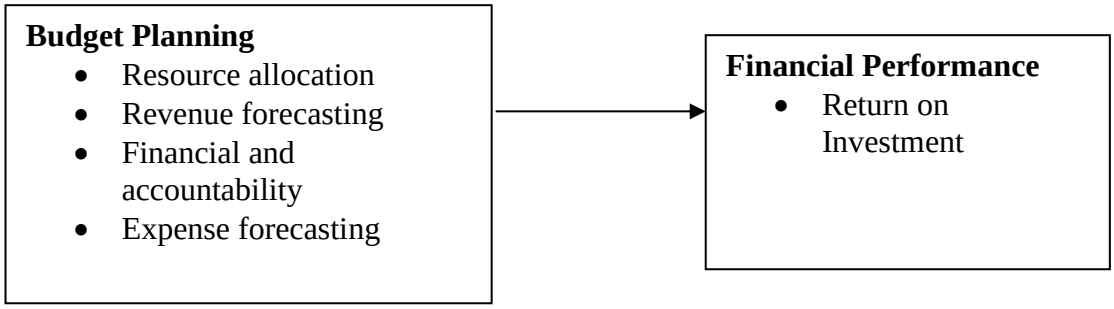
III. Purpose of the study

The study seeks to establish the effect of budget planning on the financial performance of manufacturing firms in Kenya

IV. Hypothesis of the study

1. H0: Budgeting Planning has no statistically significant effect on the financial performance of manufacturing firms in Kenya

1. Conceptual Framework



Independent Variable **Dependent Variable**

V. Theoretical Review

a. Incremental Budgeting Theory

Charles Lindblom (1959) is often credited with formalizing the concept of **incrementalism** in decision-making, which heavily influenced the development of incremental budgeting theory. In his 1959 article, **"The Science of Muddling Through,"** Lindblom introduced incrementalism as way organizations make decisions through small, gradual changes rather than through large, comprehensive plans. Lindblom argued that decision-makers prefer to make small adjustments based on existing frameworks rather than overhaul policies or budgets completely. This pragmatic approach has been applied to budgeting, suggesting that organizations will generally tweak existing budgets rather than rethink their entire financial allocation strategy each year.

Wildavsky (1964) is another key figure in the development of incremental budgeting theory. His seminal work, "The Politics of the Budgetary Process" (1964), explored how political actors influence budgeting decisions. He emphasized that budget planners prefer to use the previous year's budget as a base, only making small changes due to the political and practical constraints within which they operate. Wildavsky's analysis of how budgeting is affected by political negotiation, power struggles, and historical spending practices laid the foundation for understanding incremental budgeting as a dominant approach in public finance.

Incremental budgeting theory evolved primarily from the observation of how budgeting is carried out in real-world government and organizational settings. It contrasts with more theoretical or idealized forms of budgeting that demand a thorough re-evaluation of all financial priorities every cycle. This theory suggests that organizations or governments make only marginal changes to the current budget based on past expenditures. It assumes that last year's budget serves as a baseline, and adjustments are made incrementally. Researchers often explore how this theory reflects real-world budgeting practices, especially in government agencies. Studies may investigate whether incremental budgeting leads to inefficiencies or if it helps maintain stability in financial planning.

b. Goal Setting Theory

Goal setting theory was developed by Locke and Latham in 1984. The theory states that conscious human behavior is purposeful; it is regulated by the individual's goals. According to Locke and Latham, there are five goal setting principles that can improve our chances of success: Clarity, Challenge, Commitment, Feedback, and Task complexity. Goal setting is effective on any task where the person has control over his or her performance (Locke & Latham 1990, 2002). The underlying assumptions of the theory are that goals and intentions are cognitive and volitional and that they serve as the immediate regulators of human action. The two major findings of the theory are that specific goals lead to higher performance levels than general goals and that difficult goals are positively and linearly related to performance. These effects are subject to two conditions feedback, and the acceptance of goals by the performers. Goals regulate behavior through three mechanisms: choice/direction, intensity/effort/resource allocation, and duration/persistence. The effect of goal-setting in complex tasks is regulated by a fourth mechanism of strategy development, which is necessary for reaching the goal (Gergen & Vanourek, 2019). Given sufficient ability, goal theory predicts a drop at high goal difficulty levels only if there is a large decrease in goal commitment. Performance levels out, of course, when the limits of ability are reached.

Earley and Erez (1990) found that goals and specific norms function similarly in influencing performance. The norms were communicated as the normal performance of other people. If individuals were given specific goals and then different norms a week later, the latter regulated subsequent behavior. The converse occurred when information on norms preceded the assignment of goals. Meyer and Gellatly (1988) found that goals and norms affected each other and performance. Managers can play an important role in facilitating goal commitment in subordinates by persuading them that the goals are both attainable and important. This can be done by managers asserting their legitimate authority, conveying normative information, showing that the goals provide opportunities for self-improvement, challenging people to show what they can do, being physically present at the work site, being supportive and trustworthy, providing a convincing rationale for the goal, exerting reasonable pressure for performance, being knowledgeable about the task and job, and serving as a role model for the behavior they desire in the subordinate (Gergen &Vanourek, 2019). This theory is relevant to the study in that budgets should be set in a way that employees feel their achievements as challenging. Simplicity in achieving budgets has not been seen to motivate employees to achieve. Even through setting high goals set the bar higher to obtain self-satisfaction, attaining goals creates a heightened sense of efficiency (personal effectiveness) self-satisfaction positive effect and sense of well-being especially when the goals conquered were considered challenging by providing self-satisfaction, positive effect, and sense of well-being especially when the goals conquered were considered challenging. By providing self-satisfaction, achieving goals often also increases organizational commitment which in turn positively affects the organizational performance.

Goal setting theory has been criticized in that when two separate goals are set at the same time, exerting too much focus on one may make it difficult to achieve the other (David & Stovall, 2011). Another limitation is when employees focus so intently on their goals that they will ignore other aspects of their job (Asia Policy Support Unit (PSU), 2012). Also, not accounting for an individual's subconscious actions provides weaknesses to the goal-setting theory (Locke & Latham, 2001). This approach also does not account for actions motivated by the subconscious; as the goal-setting theory focuses on cognition with no regard to the subconscious (PSU, 2012). On occasion, an individual can do something without being aware of what is motivating them. Goal-setting theory focuses on how goals are related to job performance, but does not consider the "why", and does not account for why setting goals is linked to performance (PSU, 2012).

VI. Budget Planning and financial performance

Budgeting plays a crucial role in ensuring the efficient operation of a business and offers a practical method for managing limited financial resources within an organization (Shawe, 2023). A budget serves as a financial blueprint for future activities, involving detailed projections of anticipated expenses and revenues (Nguyen, 2024) . Most businesses rely on operational and capital budgeting to allocate their financial resources effectively. Budgets may be balanced, in surplus, or in deficit, depending on the feasibility of projected values. Since financial and time constraints often challenge both individuals and organizations, the efficient management and use of resources are vital for successful business operations Nguyen, (2024). While planning is fundamental to achieving optimal performance, budgeting remains a key tool for corporate managers to support strategic plans and oversee resource allocation. Essentially, a budget outlines an organization's goals and provides a roadmap for top management to acquire and allocate resources to achieve these objectives.

Effective budget planning involves setting clear, measurable goals for the organization and developing various financial strategies to achieve them. It requires forecasting future events and aligning business operations with the organization's

predefined objectives (Brasit, 2021). Budget planning plays a vital role in resource allocation, financial control and accountability, cost efficiency, improves decision making, and numerous financial aspects within an organization. It facilitates management of cash flows, enabling accounting managers to control costs, evaluate performance, and anticipate future financial needs. Additionally, it promotes communication and collaboration among departments and aids in identifying and mitigating potential risks. Integrating budget planning into financial management processes allows accounting managers to optimize resource use and support the organization's overall success.

Manufacturing firms use budgeting as a management tool to assess their performance. Budgets also serve to translate companies' medium-term strategic plans into actionable terms. According to (Wangari & Luther, 2022), the primary purpose of budgeting is to maximize shareholder value by planning the optimal use of resources, continuously evaluating performance, and making timely adjustments as needed. Most firms review their performance against the budget monthly, allowing them to detect and address any deviations from planned performance promptly.

Agbenyo et al., (2018) conducted research on the impact of budget planning on the financial performance of publicly listed manufacturing firms in Ghana. Their findings highlighted the crucial role budget planning plays in enhancing the financial performance of these companies and identified a strong positive relationship between budgeting and financial outcomes. The study concluded that planning, monitoring and control, coordination, and evaluation significantly contribute to the positive financial performance of manufacturing firms. However, the study focused solely on listed manufacturing companies in Ghana and considered budget planning as the only variable, whereas the present study will be conducted in a Kenyan context, incorporating additional financial planning variables.(Adembesa & Ombaba, 2020) investigated the effect of budgeting planning practices on the performance of manufacturing firms in UasinGishu county, Kenya. Their findings revealed that more formalized budget planning results in higher sales revenue, while formalized budgetary control contributes to greater profit growth. The study also noted that formal budget planning and formal budgetary control have different effects on financial performance, with formal budget planning having a stronger influence on sales growth, whereas formal budgetary control has a more significant impact on profit growth. However, how applicable these findings are to manufacturing firms in Kenya, remains unexplored.

According to (Foster, 2017)) performed their research on 402 Medium and large companies in the United States, in part to determine whether various budget practices, including planning, of financially successful firms differed significantly from other firms. A sample of 402 firms used over a five-year period (1981 – 1985). In the inquiry, budget planning was used as one of the prognosticator variables. The author discovered that using budgets for planning and coordination positively impacted financial performance. The author, argued that planning helps managers develop an appropriate course of action in the face of uncertainty, hence, beneficial and important for businesses' performance. These findings align with those by (Abongo, 2017) , (Nair Manoharan, 2017) and (Nwanyanwu & Nkiru, 2018) who identified a positive and significant relationship between budgeting planning and businesses' performance. The finding was that planning was part of the two primary management accounting aspects that improved decision-making. This points to the central role of planning and the impact of planning on an organizations' success.

In another study, (Libby & Lindsay, 2010) conducted a study of North American firms to update existing literature on current budget practices, evaluate contemporary criticisms of budgeting and identify trends in budget practices including aspects of strategy and planning. The study spanned over five years period (2004- 2008). In undertaking the study, budgeting planning was gauged by budget goal clarity and budget goal difficulty while return on assets was adopted to measure financial performance. The study found a positive relationship between the key study parameters. The implication of the findings was that nearly all respondents indicated they currently use, and plan to continue using, budgets for planning purposes. These results align with (Suave et al., 2016), who found that 83% of his sample used budgets for control purposes, with similar results observed in both Canadian and US samples. However these findings contrast with (Ahmad, M.F. and Salleh, 2009) who observed that the process of budgeting and its relationship with performance in SMEs are still unclear.

Mulani et al., (2015) on the impact of budgeting on the performance of small and medium enterprises in India over the five-year period 2006 – 2010. The study found that only 12.5% of SMEs registered as private or public limited companies created budgets for making long-term investment decisions. The author noted that most of the surveyed units made minimal investments in fixed assets after launching their businesses, and the units that did consider aspects of capital budgeting did not prepare technically accurate capital budgets. In a related study, (Maduekwe et al., 2016) reviewed the use of budgets by SMEs in Cape Metropolis, South Africa, over a five-year period (2009–2013). It aimed to identify the types of budgets used and the extent of their application among SMEs in the region. The study found that most SMEs utilized budgets, including purchase, sales, and cash budgets, with fixed budgets being the most commonly employed

method. It also revealed that the main challenges hindering effective budget use were a lack of qualified personnel and insufficient support from top management. These findings mirror the results by (Matsoso et al., 2021),

Frimpong et al.,(2020) and (Chaudhary & Chaudhary, 2018) Whose research target budget setting, budget administration and budget process played a major role in influencing the firm's performance. However, the findings by (Mulani et al., 2015) showed a mixed result when they argue that the impact of budget planning and budgetary control on performance may vary from firm to firm depending on the extent of its use. In their study, the performance was measured by sales growth and returns on investment. The sample was selected from three districts of Mumbai, Pune and Solapur. Statistical tools were used for analysis. A positive relationship between performance and budgeting process was established in the study. However, the impact of budgetary planning on sales was very weak which had a negative impact on revenue.

(Silva & Jayamaha, 2012) conducted an empirical study to examine whether the budgetary process in Sri Lanka's apparel industry significantly influenced organizational performance. The budgetary process was assessed using variables such as planning, coordination, control, communication, and evaluation, while performance was measured by return on assets. The study found a significant relationship between the budgetary process and the firms' performance. However, this result contradicted a similar study by (Nwanyanwu & Nkiru, 2018) , which found no significant relationship between budget planning and return on investment. (Nwosu C. et al., 2020) also supported this, in their study on budgeting and performance production system in Nigeria, showing that firms with more formal budgeting and control processes achieved higher sales growth, but there was no significant link between budget planning or control and return on investment.

VII. Research Methodology

7.1 Research design

Research design involves structuring the conditions for collecting and analyzing data to achieve a balance between the study's objectives and operational efficiency (Kerlinger, 2011). It acts as a strategic plan for gathering, measuring, and interpreting data. This study adopted a mixed-methods research design (Creswell, 2003). According to John W. Creswell, the mixed-methods approach integrates qualitative and quantitative techniques within a single framework, providing a comprehensive perspective on research questions. By combining the strengths of both methods, this approach also addresses their individual limitations. Specifically, the study employed a cross-sectional design alongside the mixed-methods framework. Cross-sectional studies collect and analyze data at a specific point in time, while the mixed-methods approach unites qualitative and quantitative strategies to deliver a deeper and more holistic understanding of the research issues (Creswell, 2003). The study's target population were 741 manufacturing firms operating in Kenya. The respondents were; the chief finance officers, and accountants of manufacturing firms registered with KAM. The study used purposive sampling to select the 259 managers of departments from a target population of 741. The data spanned five years, from 2018 to 2022, and was sourced from the financial statements of the manufacturing firms.

7.2 Data Collection Instruments

Parahoo (2014) defines a research instrument as a tool utilized for data collection. It serves as a structured system for assessing perceptions, attitudes, and abilities. Primary data was gathered through a self-administered, semi-structured questionnaire. The questionnaire consisted of closed-ended questions and a customized five-point Likert scale to measure the study variables based on responses from departmental heads. A secondary data collection template was employed to gather quantitative data. Kothari (2011) emphasizes the importance of establishing a robust data collection method to facilitate effective data gathering.

VIII. Study Findings

8.1 Descriptive Results on Budget Planning

The study sought to explore the effect of budget planning on the financial performance of manufacturing firms to either accept or reject the null hypothesis. That is, Ho: there is a significant difference expected between the means, at $\alpha = 0.05$, two-tailed, Reject Ho: if P-value $\leq \alpha$, otherwise fail to reject Ho: if P-value $> \alpha$.

The manufacturing firms' budget planning was assessed by eight measures namely; a tool to prevent financial challenges, monitoring mechanism, timely disbursement of resources, allocating what is budgeted for, long-term and short-term budget plans, budget having clear goals and objectives, and preparing budget plans before the budget year. Table 4.16 summarizes the respondent's degree of agreement on how budget planning measures affects the financial performance of manufacturing firms. The highest mean score was registered by budgeting planning as a tool actualize financial performance with a mean of 3.536 and the second was firm's long-term and short-term budget plans enhances financial performance with a mean of 3.436. The third was firm's department prepare budget plans prior to the budget year with a

mean of 3.329. The mean scores imply that the higher the mean the higher the influence of the construct on budgeting planning. The overall mean score for all the measures was moderate at 3.29.

Table 1.: Descriptive Results on Budget Planning

Opinion Statement	SD %	D %	N %	A %	SA %	Mean	Std. Deviation
1. Budget Planning align funds with organizational policies and goals	4.9	5.9	10.8	31.4	47.1	3.536	.1110
2. Budget Planning help maintain financial discipline	2	19.6	26.5	28.4	23.5	2.014	.1207
3. Allows management to hold departments accountable for their spending	4.9	37.3	36.3	4.9	16.7	3.004	.1128
4. Budget planning sets benchmarks and financial targets	14.7	22.5	25.5	28.4	8.8	3.232	.1185
5. Budget planning identifies ways to reduce unnecessary expenses	0	46.1	9.8	0	44.1	3.436	.1110
6. Budget planning ensures that the budget aligns with firm's short and long-term goals	0	50	17.6	0	32.4	3.295	.1160
7.Budget planning provides a clear financial framework for decision makers	2.9	2.7	31.4	31.6	31.4	3.329	.1185
8. Budget planning enables decision-makers to make informed choices	.9	2.7	31.4	31.6	31.4	3.239	.1185
9. Budget planning ensures there are sufficient funds for operational needs	0	50	18.0	1	33.5	3.296	.1160
Average						**2.78**	**0.00355**

Key, scale: 1-1.8 strongly disagree, 1.8-2.6 disagree, 2.6-3.4 neither agree nor disagree, 3.4-4.2 agree, 4.2-5 strongly agree.

The results imply that most respondents felt that organizational policies and goals was the highest factor of manufacturing firm performance with the highest mean of 3.536 while financial discipline had the least effect at 2.014.

8.2 Inferential Results of Budgeting Planning on financial performance

8.2.1 Budgeting Planning KMO Measures and Factor Analysis

Budgeting planning is an important factor in the performance of enterprises as it improves decision-making, increases efficiency and productivity, better financial management, and enhances performance measurement (Abongo, 2017), (Nair Manoharan, 2017) and (Nwanyanwu & Nkiru, 2018). KMO test measures sample adequacy and it ranges between 0 and 1. KMO test measures are shown in Table 1.2

Table 1.2: Budgeting Planning Measures KMO and Bartlett's Test

Kaiser-Meyer-Olkin		Measure of Sampling Adequacy .841
Bartlett's Test of Sphericity	Approx. Chi-Square	841.936
	df	36
	Sig.	.000

KMO measures on budgeting planning had 0.841 which represented great acceptability of the use of factor analysis and sufficient intercorrelations. Bartlett's test of Sphericity is significant (chi-square=841.936, $p<0.000$). Bartlett's test checks if the observed correlation matrix diverges significantly from the identity matrix.

8.2. 1 Linear Regression Results of Budgeting Planning and Financial Performance

Table 1.3: Regression of Budgeting Planning and Financial Performance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
Primary	.810[a]	.656	.654	.61237

a. Predictors: (Constant). Budget Planning

The primary data results showed that budget planning had moderate explanatory power on financial performance as it accounted for 65.6% percent of its variability (R square = 0.656). This means that about 65.6% of the variation in financial performance is explained by the model. This means 34.4% of the variation in financial performance is unexplained by the model. Adjusted R^2 is a modified version of R^2 that has been adjusted for the number of predictors in the model by less than chance. The adjusted R^2 of 0.654 which is slightly lower than the R^2 value is a precise indicator of the relationship between the independent and the dependent variable because it is sensitive to the addition of irrelevant variables. The adjusted R^2 indicates that 65.4% of the changes in the financial performance is explained by the model and 34.6% is not explained by the model. This means that budgeting planning has a strong influence on the financial performance of manufacturing firms in Kenya. These findings were supported by a study on budgeting planning by (Foster,2017) who established that the use of budgets for planning and coordination had a positive effect on financial performance. These findings agree with those by (Abongo,2017), (Nair Manoharan,2017) and (Nwanyanwu & Nkiru,2018) who found a positive and significant relationship between budget planning and businesses performance. The findings were also supported by Supartini (2020) who examined the relationship between budgeting planning and organizational performance in west Sulawesi province of Sri-Lanka, established a positive relationship between budget planning and organizational performance.

Table 1.4.: ANOVA of Budgeting Planning and Financial Performance

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	100.141	1	100.141	26.704	.000[b]
Primary	Residual	52.500	140	.375		
	Total	152.642	141			
	Regression	.416	1	.416	28.803	.000[b]

a. Dependent Variable: Financial Performance, Return on Investment

b. Predictors: (Constant), Budget Planning

In table 4.29 ANOVA F test was done to test the significance of the independent variables on the dependent variable and the existence of variable variations within the model. Primary data ANOVA test results on Budgeting Planning revealed F-statistic of 26.704 which was significant at 0.05 ($P < 0.05$). ANOVA test revealed that budgeting planning has significant effect on financial performance of manufacturing firms. The P value was 0.000 which was less than 5% level of significance. The *P* value was 0.000 implying that the model was significant. The study therefore rejected the first null hypothesis.

Ho: Budget planning does not significantly affect the financial performance of manufacturing firms in Kenya.

Table 1.5: Model Coefficients of Budgeting Planning

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.375	.165		2.276	.002

Budget Planning	.780	.048	.810	16.341	.000
(Constant)	.134	.077		1.725	.000

a. Dependent Variable: Financial Performance, Return on Investment

To evaluate the effect of budget planning on the financial performance of manufacturing firms, the study had set the following null hypothesis; HO**:** There is a no significant effect of budget planning on financial performance of manufacturing firms in Kenya. The individual regression results in Table 1.5 reveal statistically significant positive linear relationship between budgeting planning and financial performance ($\beta = 0.810$, P-value = 0.000). Hence, HO: is rejected since $\beta \neq 0$ and P-value<0.05. These findings are supported by a study by (Foster,2017), who established that the use budgets for planning and coordination had a positive effect on financial performance.
The null hypothesis is rejected since $\beta \neq 0$ and p-value<0.05. The regression model is summarized by equation 4.1.
$Y = \beta o + \beta 1X1 + \varepsilon$

Y= 0.375 +0.780X1……Equation 4.1
Where,
Y – Financial Performance, X1 – Budget Planning
From the regression model, it is clear that budgeting planning had a higher influence on financial performance.
These findings are supported by (Subriyah et al., 2021), who established that budgeting planning has a positive and significant effect on organizational performance. The null hypothesis is rejected since $\beta \neq 0$ and p-value<0.05. The regression model is summarized by equation 4.2.
$Y = \beta o + \beta 1X1 + \varepsilon$
= 0.134 +0.728X1……Equation 4.2
Where,
Y – Return on investment, X1 – Budget Planning
From the regression model, budget planning had a higher influence on the return on assets.

8.3 Correlation Results of Budget Planning and Financial Performance

A correlation test was conducted to test the relationship between budgeting planning and the financial performance of manufacturing firms in Kenya. The correlation results are presented in Table 1.4

Table 1.6: Correlation Coefficients of Budgeting Planning and Financial Performance

Variable		**Budget Planning**	**Financial Performance**
Budget Planning	Pearson Correlation	1	.810**
	Sig. (2-tailed)		.000
	N	141	141
Financial Performance	Pearson Correlation	.810**	1
	Sig. (2-tailed)	.000	
	N	141	141

** . Correlation is significant at the 0.01 level (2-tailed)

The results indicate that there is a relationship between budgeting planning and financial performance with a coefficient of 0.810. This confirms that there is a positive and significant relationship between budgeting planning and a firm's financial performance. The study supports the findings of Abongo (2017) who found a positive relationship between

budget planning and businesses' financial performance in Kenya. (Subriyah et al., 2021), point to budgeting planning as an important factor in the performance of organizations.

IX. Conclusions and Recommendations

It is imperative to conclude that budget planning have a positive and significant effect on the financial performance. From the results, budgeting planning has helped firms allocate their resources efficiently. Funds are directed towards strategic initiatives that align with the company's goals and objectives. This has also resulted to firms being able to maintain adequate cash flow to meet their operational needs and avoid liquidity crisis. Despite this, optimum operation of the firms has not been realized. The underlying reason for this is uncertainty and unpredictability making it difficult to predict future financial conditions accurately, and also inaccurate data leading to flawed budgeting forecasts. As a result, this has to be addressed in order to obtain higher profit returns.

Recommendations:

The study revealed that budget planning are instrumental in enhancing the firm's financial performance. By setting spending limits and monitoring actual expenditures against the budget, firms can prevent overspending and ensure resources are used efficiently. To the financial analysts, decision makers, and firm managers, a well-planned budget demonstrates financial discipline and foresight which can boost confidence among stakeholders such as investors, creditors, and employees. This can lead to better financing terms, stronger investor relations, and enhanced employee morale.

Suggested Areas for Further Research:

This study recommends that another study be conducted to argument the findings in this study. Given that the current study variable, budget planning explain 65.6% of the variations in the financial performance of manufacturing firms in Kenya. Future Research study should explore additional variables that influence financial performance. These variables could include external factors such as government policies, market conditions, and climate change as well as internal factors such as financial management, variance analysis, and risk management. By investigating a broader range of variables, future studies can provide a more comprehensive understanding of budgeting practices on financial performance of manufacturing firms. Moreover, future research should consider extending the study to other sectors beyond manufacturing, such as financial service, construction and transport.

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